

Pre-merger competition supporting evidence

IBS's view on pre-merger competition in the relevant markets

- Table 1 shows IBS's view of its competitors and their product offerings in the R&B and SH markets as presented to institutional investors in 2005.

TABLE 1 IBS's view of competitors and their product offerings, 2005

	<i>Housing</i>	<i>Revenues/Benefits</i>	<i>Contractor</i>
Capita	[X]	[X]	[X]
Northgate	[X]	[X]	[X]
Sx3 (Now Northgate)	[X]	[X]	[X]
Anite (Now Northgate)	[X]	[X]	[X]
Orchard	[X]	[X]	[X]
Consilium	[X]	[X]	[X]
Civica	[X]	[X]	[X]
Comino (Now Civica)	[X]	[X]	[X]
Aareon	[X]	[X]	[X]

Source: IBS management presentation to institutional investors, prepared by NUMIS.

✓✓ = Main competitor. ✓ = Solution exists. ✗ = No solution exists.

Note: IBS submitted that this data represented IBS's view of the competition as at 2005, and so should be treated with caution when extrapolating to more recent or future years.

Revenues and benefits software

Individual and total revenue from new contracts

- Table 2 shows the average lifetime contract revenue according to a number of sources and the estimated total revenue of all new contracts coming out to tender, assuming either 5, 10 or 15 contracts awarded per year, based on these average contract revenue.

TABLE 2 Average lifetime revenue of R&B contracts and estimated total revenue of new contracts coming out to tender

	North- gate*	North- gate†	Anite‡	Capita —win data§	Capita— win + initial bid data¶	Capita— OFT data#	Capita —CC initial sub~	IBS— win data★	IBS—win + initial bid data◆
Number of contracts	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]
Total lifetime revenue £'000	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]
Average lifetime revenue £'000	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Estimated total revenue from new contracts, £'000, assuming:									
—5 contracts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
—10 contracts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
—15 contracts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC analysis of data provided by Northgate and the main parties.

*[REDACTED]

†[REDACTED]

‡[REDACTED]

§Capita win data. Tenders 2005 to 2008 that Capita won.

¶Capita win + initial bid data = contracts 2005 to 2008 which Capita won and data for tenders that Capita submitted bids for but did not win.

#Capita response to the OFT dated 15 September 2008. Average revenue of an R&B software licence fee is £[REDACTED] (range £[REDACTED] to £[REDACTED]); average annual maintenance fee £[REDACTED] (£[REDACTED] to £[REDACTED]), implementation fee was not specified. Average lifetime revenue calculated based on five-year support. Capita stated that £[REDACTED] is an estimate for 2009, and that this estimate is lower than the average revenue in 2008 due to the exclusion of contracts awarded by large authorities in 2008.

~Capita. Average revenue of software licence and implementation fees is £[REDACTED], average annual maintenance fee is £[REDACTED].

Average lifetime revenue calculated based on five-year support. Capita explained that this calculation was based on contracts awarded in 2008 but it excluded a tender put out by a large local authority.

★IBS win data. Tenders 2005 to 2008 that IBS won.

◆IBS win + initial bid data = contracts 2005 to 2008 which IBS won and data for tenders that IBS submitted bids for but did not win.

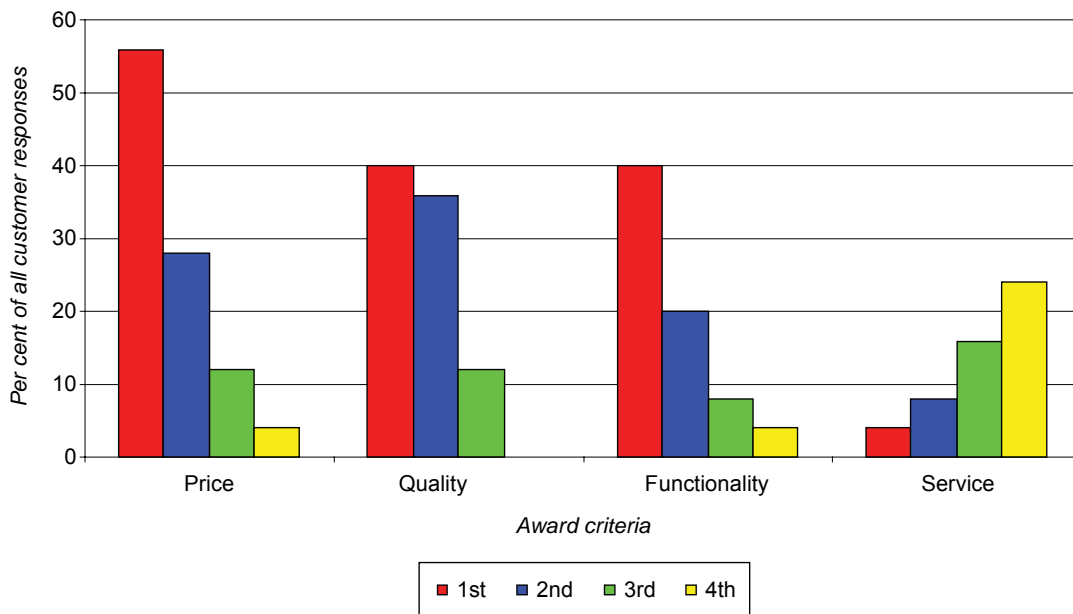
Award criteria weightings

3. Figure 1 shows the proportion of times each award criterion—namely price, functionality, quality and service—was ranked first, second, third or fourth by those R&B software customers that responded to the questionnaire when choosing to which supplier to award a contract.¹ 56 per cent of respondents ranked price first (or joint first) and 40 per cent ranked functionality and quality first (or joint first).

¹These percentages refer to customers that responded to our survey and are indicative of respondents' views rather than reflecting the opinions of the entire customer base.

FIGURE 1

R&B software award criteria rankings



Source: CC analysis based on customer questionnaire responses.

Notes:

1. Attribute rank as a percentage of all customer responses. Price was ranked first by 14 customers which equates to 56 per cent of all responses (25 customers responded).
2. Percentages will sometimes sum to greater than 100 because of joint rankings or less than 100 because customers did not rank all factors.

4. OJEU contract award notices sometimes list attribute weightings. A review of OJEU contracts over the last five years shows that 11 contracts out of 29 specify a ranking of product features. The feature most commonly ranked as the most important is price. Functionality, or the ability to meet the client’s requirements, is also often ranked first. Where price is not ranked as the most important, it is almost always ranked as the second most important. One contract award ranks quality of the product as the most important. Other factors cited as a basis for a contract award, though not the most important features, are the reputation or experience of a supplier, the implementation of the product, the training and support provided and occasionally the supplier’s awareness of data protection requirements.²

²The main parties said that limited information on weightings given by the customer to the various aspects of the winning bid might sometimes be published in a contract award notice in the OJEU, but that this was generally unhelpful.

5. Further, IBS’s internal documents highlight that the procurement decisions are strongly influenced by the reputation of the product supplier and system reliability, rather than simply pricing.
6. Table 3 presents a comparison of scores achieved by several suppliers, including the main parties, in the five customer evaluation forms we received. [redacted]

TABLE 3 **Supplier comparisons according to award criteria**

Customer	Award criteria	Supplier percentage score			
		Capita	IBS	Sx3 (now part of Northgate)	Anite
[redacted]					

Source: CC analysis of customer evaluation forms.

*This score was given as a negative number, and it was unclear from the evaluation report how to interpret this. It is clear, however, that Capita performed better on cost than IBS for this contract.
 Note: The scores have been converted to percentages out of the total available score for each criterion. In this way the scores are comparable across customers.

7. IBS told us that its prices were competitive. In addition, IBS’s internal documents show that price is an important dimension to competition. For example, ‘Competition has been stronger and more aggressive’ and ‘In all areas we have recognised that there is extreme competitive pressure on prices particularly licence charges. We have assumed lower licence values than have been achieved historically.’

Innovation

8. Table 4 presents expenditure on R&D³ between 2003 and 2008 (where data was provided).

³As we note in paragraph 6.35 of the main body of this report, the main parties’ R&D expenditure includes aspects which we would more usually term general operating expenditure, such as bug fixes, minor upgrades and responses to small legislation changes.

TABLE 4 R&D expenditure on R&B software, absolute values and as a proportion of total revenue

Year	IBS			Capita		
	R&D expenditure £	Total revenue £	R&D spend %	R&D expenditure £	Total revenue £	R&D spend %
2003	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2004	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2005	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2006	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2007	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2008	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC analysis of Capita and IBS data.

Notes:

1. This table shows R&D expenditure that has been treated as an expense in the profit and loss statement (ie treated as a cost item in the calculation of profit) for both Capita and IBS. Whilst we understand from Capita that it treats its entire R&D expenditure as an expense in the profit and loss statement in both R&B and SH, in the case of IBS, the majority of R&D expenditure is capitalized (ie treated as an asset on the balance sheet) and therefore the above figures under-represent IBS's R&D expenditure.
2. R&D spend is R&D expenditure as a percentage of the total revenue for each year.
3. Capita's figure refers to expenditure on external contractors and not only includes R&D, but also the entire core product development. The figure may underestimate slightly the true R&D spend as Capita does not fully charge costs such as unit and product managers, time spent on planning and meeting customers, nor does it include central costs and general expenses such as travel and subsistence.
4. IBS development expenditure includes R&D spends that were expensed but may not fully represent the level of R&D expenditure, for example data on the central costs allocated to development workers are not kept.
5. Capita's 2008 revenue and expenditure only covers months up to and including September 2008.

9. [REDACTED]

TABLE 5 IBS total expensed and capitalized development costs

Year	IBS total development costs
2005	[REDACTED]
2006	[REDACTED]
2007	[REDACTED]

Source: IBS annual reports and accounts (2006 and 2007). CC analysis of IBS data.

10. Capita also told us that [REDACTED].

Bidding data

11. Tables 6 and 7 show the annual number of new contracts bid for by each supplier between 2003 and 2008, and the proportion of total contracts that this represents. A list of the contracts awarded in each year and the bidders for those contracts, according to both the main parties and Northgate, has been included in paragraphs 15 and 16.

TABLE 6 Number of contracts bid for in each year—data from the main parties

Year	Total contracts	Capita		IBS		Northgate		Anite	
		No	%	No	%	No	%	No	%
2005	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2006	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2007	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2008	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC analysis of data provided by the main parties.

TABLE 7 Number of contracts bid for in each year—data from Northgate

Year	Total number	Capita		IBS		Northgate		Anite	
		No	%	No	%	No	%	No	%
2003	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2004	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2005	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2006	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2007	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2008	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC analysis of data provided by Northgate.

12. As shown in Tables 8 and 9, we also looked at how often the main parties, Northgate and Anite, bid against each other for contracts from 2005 to 2008.

TABLE 8 Number of times suppliers bid against each other, 2005 to 2008—data from the main parties

	No of contracts bid for	Capita	IBS	Northgate	Anite
Capita	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
IBS	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
Northgate	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
Anite	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	

Source: CC analysis of data provided by the main parties.

Note: Total number of contracts = [REDACTED].

TABLE 9 Number of times suppliers bid against each other, 2003 to 2008—data from Northgate

	No of contracts bid for	Capita	IBS	Northgate	Anite
Capita	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
IBS	[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
Northgate	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
Anite	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	

Source: CC analysis of data provided by Northgate.

Note: Total number of contracts = [REDACTED].

13. Table 10 summarizes customers' responses when asked who they approached to provide them with tenders, proposals or quotations.⁴

TABLE 10 Recent tenders and bidders

Customer	Year	Number of bidders at PQQ stage	Number of bidders at tender stage	Supplier tendered for contract			Contract winner	Top two bidders
				Capita	IBS	Northgate		

[X]

Source: CC analysis of customer questionnaire responses.

Note: N/K = not known.

14. We present the data provided by the main parties and by Northgate on the bidders for each of the contracts awarded.

15. Table 11 shows the customer name, year, winner and who bid for each contract between 2005 and 2008 on which we were provided information by the main parties.⁵

TABLE 11 Bidding data—data from the main parties

Customer	Year	Capita bid	IBS bid	Anite bid	Northgate bid	Civica bid	Decision
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[X]

Source: CC analysis of data provided by the main parties.

16. Table 12 shows who bid for and who won each of the contracts of which Northgate was aware between 2003 and 2008.

TABLE 12 Bidding data—data from Northgate

Customer	Year	Capita bid	IBS bid	Anite bid	Northgate bid	ICS bid	Decision
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[X]

Source: CC analysis of bidding data provided by Northgate.

*Contracts where Anite was qualified out—see paragraph 17.

17. [X]

⁴Customer questionnaire: 'It would be useful if you could summarize as many as possible of your tenders, proposals or quotations for systems since 2003 using the best available data (including those purchased as a result of closed negotiations).'

⁵The main parties told us that in a number of cases where a contract was won by a company other than Capita and IBS, the winning company may have been unknown to Capita or IBS at the time the bidding data was submitted.

Switching

18. Data migration is widely cited as the main switching risk. Since each R&B application is written to function on a specific database, changing suppliers usually involves replacement of the local authority's database containing personal and property records for residents and businesses. Databases are provided by third-party software suppliers (eg Oracle, Ingres, Progress), but are installed by the supplier of the R&B software system. The process of data migration requires careful management to preserve the data integrity of underlying records.
19. The cost of, and time needed for, implementing a new software system is material. Software suppliers typically charge customers for data conversion, training, project management, and various other implementation and consultancy services. Key findings are:
- (a) based on our analysis of contracts, the direct installation costs payable by the customer to the supplier are in the region of [redacted] per cent of the total contract revenue;
 - (b) Northgate's average implementation fee is [£32,300 to £612,500];⁶ and
 - (c) customer and contract information provided mixed estimates on costs: data conversion costs £11,625 to £70,870; training costs £760 to £104,490 and project management £760 to £38,100.
20. Implementing a new software system is a lengthy process. Suppliers estimated that it took [redacted] to implement a new system depending on the size of the customer.⁷

⁶Northgate provided us with the total implementation fees charged for several new R&B software contracts in the years 2005 and 2008.

⁷Capita told us that migration would take [redacted] to [redacted] months and it would envisage supplying around [redacted] days' system training. IBS internal documentation stated that each new implementation required approximately [redacted] days' interface development and [redacted] days' bespoke changes to conversion programs to deal with local practices and resolve data issues, and IBS estimated that a new system could take between [redacted] and [redacted] days to implement, depending on the size of the customer. Northgate told us that there was a [redacted]. Civica told us that the migration of data and services to a new system would usually take around [redacted] to complete from the tender award to the go-live date on the new software.

21. These cost figures are likely to under-represent the true costs of implementation as (a) there is an opportunity cost to training and (b) they do not take into account the customer's internal costs of general disruption and upheaval during the implementation phase. Furthermore, there are additional internal costs. The ratio of IBS's resource time to the customer's is in the order of [X] days, ie the customer will use [X] internal resources for every [X] of implementation provided by IBS. Northgate estimated that a large customer would typically require six to eight members of its own staff working full time on the project for the duration of the implementation period.
22. We asked customers to estimate the costs of switching contracts for an R&B software system. These estimates ranged from £150,000 to £7 million, and for those customers who have switched R&B software supplier in the last five years, the average estimated switching cost was £1.24 million.⁸
23. We asked customers by how much their supplier of R&B software application licences would have to increase its price for them to consider switching (assuming that all other suppliers' prices remained the same—see Table 5 of Appendix C). Of the 41 responses we received, 68 per cent of respondents indicated that prices would have to rise by more than 30 per cent for them to consider switching R&B software suppliers, and 29 per cent said that prices would have to rise by at least 50 per cent. A further 20 per cent of respondents told us that switching R&B software supplier is not an option they would consider in response to any price rises.

⁸It is not clear whether these estimated costs include the initial licence fee, which, once a contract had been put out to tender, would have to be paid regardless of a switch of supplier, as well as fees for services such as training and data conversion, which would likely only be required with a switch of supplier. It is reasonable to suspect that some do and some do not.

Social housing software

Individual and total revenue from new contracts

24. Capita estimated that the annual revenue (including maintenance and fees) from new contracts awarded would be approximately £[redacted] in 2007 and £[redacted] in 2008. Table 13 shows the average lifetime contract revenue according to a number of sources and the estimated total revenue of all new contracts coming out to tender, assuming either 10, 15 or 20 contracts awarded per year, based on these average contract revenue.

TABLE 13 **Average lifetime revenue of SH contracts and estimated total revenue of new contracts coming out to tender**

	Average contract revenue, £'000		
	Capita (information provided to the OFT)	Capita tender data	IBS tender data
Average lifetime revenue	[redacted]*	[redacted]	[redacted]
<i>Estimated total revenue of new contracts assuming</i>			
—10 new contracts	[redacted]	[redacted]	[redacted]
—15 new contracts	[redacted]	[redacted]	[redacted]
—20 new contracts	[redacted]	[redacted]	[redacted]

Source: CC analysis of data provided by the main parties.

*Average revenue of an SH contract is £[redacted] (range £[redacted] to £[redacted]); maintenance fee range is £[redacted] to £[redacted]—we take the mid point.

Notes:

1. Capita tender data: average contract revenue based on the average total revenue for [redacted] contracts between 2005 and 2008.

2. IBS tender data: average contract revenue based on the average total revenue for [redacted] contracts between 2005 and 2008.

Award criteria weightings

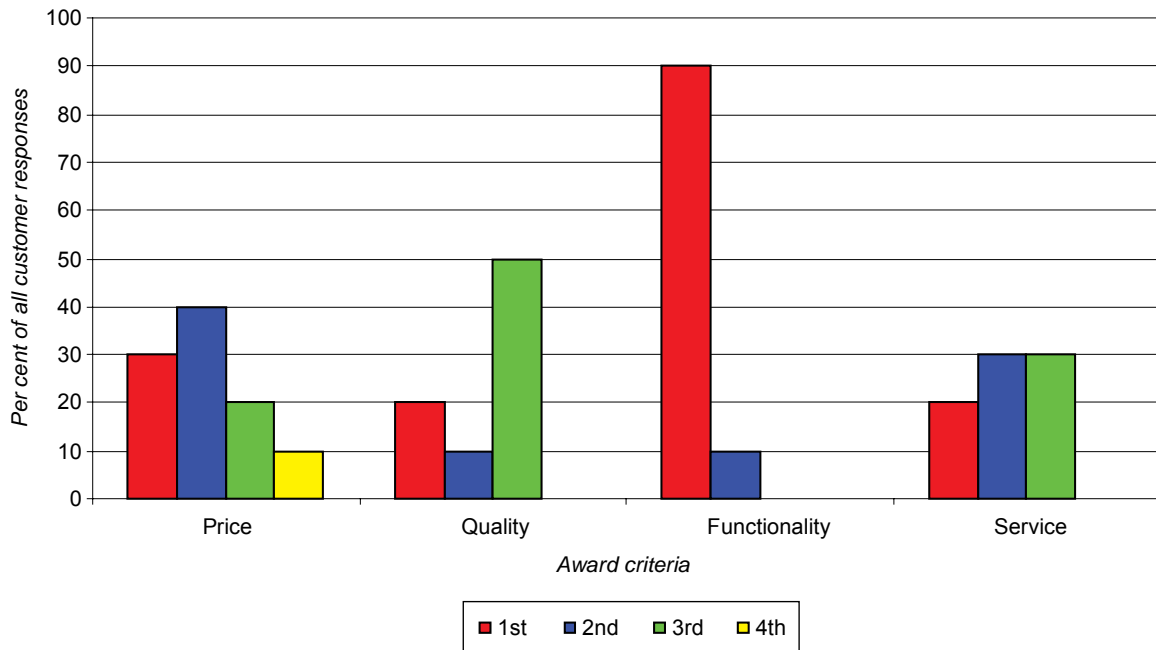
25. Figure 2 shows the proportion of times each award criterion—namely price, functionality, quality and service—was ranked first, second, third or fourth by those SH software customers that responded to the questionnaire when choosing to which supplier to award a contract.⁹ 82 per cent of customer responses ranked functionality first (or joint first) and 36 per cent ranked price first (or joint first).¹⁰

⁹Percentages calculated from a base of 11 customer responses. Percentages will sometimes sum to greater than 100 because of joint rankings or less than 100 because customers did not rank all factors.

¹⁰These percentages refer to customers that responded to our survey and are indicative of respondents' views rather than reflecting the opinions of the entire customer base.

FIGURE 2

SH software award criteria rankings



Source: CC analysis of customer questionnaire responses.

26. OJEU contracts sometimes list attribute weightings. A review of OJEU award notices for SH software contracts in the last five years showed that 15 contracts out of 20 specified a ranking of product features. The feature most commonly ranked as the most important was functionality. Price was also often ranked first. When either price or functionality was not ranked first, they were nearly always ranked second. Quality, meeting business requirements and meeting database requirements were each ranked most important in one contract. Other factors cited as a basis for a contract award, though not the most important features, included the reputation of the supplier, system implementation and post-implementation support.

Innovation

27. Table 14 presents expenditure on R&D¹¹ between 2003 and 2008 (where data was provided).

TABLE 14 R&D expenditure on SH software, absolute values and as a proportion of total revenue

Year	IBS			Capita			Orchard
	R&D expenditure £	Total revenue £	R&D spend %	R&D expenditure £	Total revenue £	R&D spend %	R&D expenditure £
2000	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2001	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2002	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2003	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2004	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2005	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2006	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2007	[X]	[X]	[X]	[X]	[X]	[X]	[X]
2008	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of Capita, IBS and Orchard data.

Notes:

1. This table shows R&D expenditure that has been treated as an expense in the profit and loss statement (ie treated as a cost item in the calculation of profit) for both Capita and IBS. Whilst we understand from Capita that it treats its entire R&D expenditure as an expense in the profit and loss statement in both R&B and SH, in the case of IBS, the majority of R&D expenditure is capitalized (ie treated as an asset on the balance sheet) and therefore the above figures under-represent IBS's R&D expenditure.
2. For Orchard, R&D expenditure between 2000 and 2002 was capitalized (and amortized), R&D expenditure from 2003 to 2007 was fully expensed in the year in which it was incurred and expenditure in 2008 was capitalized. Yearly revenue data for Orchard was not provided, so we could not calculate the proportion of R&D spend.
3. Percentage R&D spend is R&D expenditure as a percentage of the total revenue for each year.
4. Capita's figure refers to expenditure on external contractors and not only includes R&D, but also the entire core product development. The figure may underestimate slightly the true R&D spend as Capita does not fully charge costs such as unit and product managers, time spent on planning and meeting customers, nor does it include central costs and general expenses such as travel and subsistence.
5. IBS development expenditure includes R&D spends that were expensed but may not fully represent the level of R&D expenditure, for example data on the central costs allocated to development workers is not kept.
6. Capita's 2008 revenue and expenditure only covers months up to and including September 2008.

28. As we note in paragraph 9, IBS R&D spend appears to be [X] capitalized. We therefore present total development costs (capitalized and expensed) for IBS (including both R&B and SH) in Table 5.

Bidding data

29. Table 15 summarizes customers' responses when asked who they approached to provide them with tenders, proposals or quotations.¹²

¹¹As we note in paragraph 6.84 of this report, the main parties' R&D expenditure includes aspects which we would more usually term general operating expenditure, such as bug fixes, minor upgrades and responses to small legislation changes.

¹²Customer questionnaire: 'It would be useful if you could summarize as many as possible of your tenders, proposals or quotations for systems since 2003 using the best available data (including those purchased as a result of closed negotiations).'

TABLE 15 Recent tenders and bidders

Customer	Year	Number of bidders at PQQ stage	Number of bidders at tender stage	Supplier tendered for contract				Contract winner	Top two bidders	
				Capita	IBS	Northgate	Anite			
London Borough of Redbridge	2004	10	2				✓	Anite	Anite	Orchard
Sandwell Homes	Jul 07	7	4		✓	✓		IBS	IBS	Northgate
London Borough of Barking and Dagenham	Apr 08	6	4	✓		✓	✓	Capita	Capita	Northgate
Radian Group Ltd	Mar 06	4	3		✓			IBS	IBS	Aareon
Aylesbury Vale District Housing	Oct 07	7	3	✓	✓			Capita	Capita	IBS
Kendoon Housing Association	Jun 05	1						SDM	SDM	
West Whitlawburn Housing Co-operative Ltd	Sep 05	0	3		✓			IBS	IBS	SDM

Source: CC analysis of customer responses.

Note: Customers were asked to tick which out of Capita, IBS, Northgate or Anite submitted a bid, but they also indicated where another supplier was a top-two bidder.

30. Table 16 presents Northgate data on short-listed and winning bidders for those tenders in which Northgate participated between 2007 and 2008, and shows a similar picture to that received from the customer responses—namely that IBS participates in most tenders, but a number of other suppliers, including Capita, bid less often but not infrequently. Capita and IBS were short-listed for the same contract only twice.

TABLE 16 Short-listed and winning bidders, April 2007 to April 2008, for those tenders in which Northgate participated

Customer	Short-listed bidders							Contract winner
	Capita	IBS	Northgate	Orchard	Civica	Anite	NIS	
Ashford	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Orchard
Westlea	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Orchard
Derby	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Capita
Luton	[X]	[X]	[X]	[X]	[X]	[X]	[X]	IBS
Sandwell	[X]	[X]	[X]	[X]	[X]	[X]	[X]	IBS
Slough	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Capita
Erimus (Middlesbrough Large Scale Voluntary Transfer)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	IBS
Durham	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Northgate
Reading	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Not known
Wolverhampton	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Northgate
Hackney	[X]	[X]	[X]	[X]	[X]	[X]	[X]	Civica

Source: CC analysis of Northgate bidding data.

Note: This only shows the short-listed bidders for those tenders in which Northgate participated. Thus Northgate may be over-represented as a short-listed bidder for these contracts compared with the number of tenders as a whole.

Switching

31. Table 17 shows information on the reason why customers switched suppliers, for those customers that responded to our questionnaire, and had switched supplier since 2003.

TABLE 17 Customer switching and reasons for switching*

	<i>Most important reason for switching</i>	<i>New supplier</i>	<i>Old supplier</i>	<i>Date of new contract</i>
London Borough of Redbridge Sandwell Homes	Service improvement Product no longer being supported by supplier	Northgate IBS	Comino/ICL Aareon	Feb 05 Jul 07
Radian Group Ltd; previously three separate customers	Merger of three organizations	IBS	IBS, Aareon & Orchard for each customer separately	Jan 07
West Whitlawburn Housing Co-operative Ltd	Obsolete system	IBS	Harkins and Anderson	Dec 05
Places for People Group	Functionality improvement	Northgate	Capita	Apr 07

Source: CC analysis of customer responses.

*Customer questionnaire: 'In relation to your latest tender, have you switched R&B software and related services in the last 5 years? If yes, please indicate below: old supplier, new supplier, date of new supplier contract, single most important imperative for switching, product component.'

32. Software suppliers agreed that the costs and risks associated with switching SH software supplier were significant. Customers cited system installation as the main factor that inhibited switching, followed by data migration, and these factors were also highlighted by software suppliers.
33. The cost and time taken to implement a new SH software system are material. Some key findings are:
- (a) based on our analysis of contracts, the direct installation costs paid by the customer to the supplier are in the region of [%] per cent of the total contract revenue;
 - (b) contract information provided mixed information on costs: project management costs £5,600 to £63,000, training costs £760 to £55,250 and data conversion costs £800 to £21,250; and
 - (c) the implementation of a new system usually takes between 5 and 12 months.

34. As in the R&B market, these costs are likely to under-represent the costs and risks of implementation and again IBS estimated that the ratio of IBS's resource time to that of the customer was around [REDACTED].
35. We asked customers to estimate the cost of switching SH software supplier. From the responses to the questionnaire, these estimates ranged from £40,000 to £1.7 million. For just those nine respondents who have switched SH software suppliers in the last five years, the average estimated switching cost is £1,225,000.
36. Relatively high switching costs are reflected in the apparent reluctance of customers to switch suppliers. Seventeen out of 22 customer responses we received indicated that prices would have to rise by more than 30 per cent for them to consider switching SH software suppliers, and seven said that prices would have to rise by at least 50 per cent.

Monitoring

37. There is evidence that Capita monitors competing SH software suppliers. [REDACTED].¹³[REDACTED]. Business plans also provide general views on the relative strength of a number of competitors in the SH software market, including IBS.
38. IBS told us that it aimed to maintain an assessment of the winning and losing of contracts over price and functionality attributes for Aareon, Northgate and Orchard, although it did not record any of this information. Internal documentation contains evidence of this monitoring, and that it may be recorded. The 2005 IBS Information Memorandum states that 'IBS-PS frequently reviews competitor offerings and, in light of this, carries out product development to upgrade its technology or improve functionality'. Furthermore, IBS provided us with its business plans and budgets,

¹³For example, [REDACTED]

which demonstrate that it had information on Capita, Northgate, Anite, Orchard, Aareon and Civica. The sort of information that IBS obtained included the number of customers supplied and won or lost by each competitor, the relative strengths of competitors' products and some details of innovations or product rewrites, competitors' pricing strategy, and whether customers are generally satisfied with the products supplied by IBS's competitors.

39. Northgate told us that it monitored the winning and losing of software bids. [REDACTED]
Northgate said that it would seek to understand from customers how satisfied they were with their current supplier, and use this information to target new customers.
40. Orchard told us that it monitored the winning and losing of software bids. It monitored [REDACTED].
41. Civica told us that it monitored all won and lost bids with a win/loss review as appropriate, and that it specifically monitored Northgate, Anite, Capita, IBS, Orchard and Aareon.
42. Consillium told us that it monitored [REDACTED].
43. Some evidence on the main parties' perception of competition is provided below:
 - (a) Information from IBS:
 - (i) 'Competitors continue to be a challenge with some having greater success than others. Key rivals for 2008 will be Northgate, Aareon, Orchard and quite probably Capita. [REDACTED]';
 - (ii) '[Capita] have been a Housing provider for many years. We understand [REDACTED]';

- (iii) 'Aareon remain [our] strongest competitor [X]... Capita, Civica and Northgate remain key competitors, [we are] unlikely to see [a] new supplier'; and
- (iv) 'we would identify our main competitor(s) as: Housing—Orchard, Aaeron, Northgate'.

(b) Information from Capita:

- (i) 'IBS strong in this market ... Northgate, Orchard and Comino considered better products';
- (ii) 'The leading suppliers in the market in the last two years have been IBS and Orchard. However they are now being seriously challenged by Aareon and Comino'; and
- (iii) 'IBS and Orchard continue to dominate the housing market overall'.

44. We asked the main parties to describe how competitive other suppliers' offerings are in the SH market. Table 18 summarizes their responses.

TABLE 18 Main parties' view of competitors in the SH market

	<i>Main competitor?</i>	<i>Prices competitively?</i>	<i>Fully feature housing management?</i>	<i>All necessary implementation and support?</i>	<i>Other modules offered?</i>	<i>Other information</i>
Aareon	[X]	[X]	[X]	[X]	[X]	[X]
Civica	[X]	[X]	[X]	[X]	[X]	[X]
Northgate (including Anite products)	[X]	[X]	[X]	[X]	[X]	[X]
Orchard	[X]	[X]	[X]	[X]	[X]	[X]
MIS	[X]	[X]	[X]	[X]	[X]	[X]
Omniledger	[X]	[X]	[X]	[X]	[X]	[X]
SDM	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis of main parties' response.